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RUEHZL/EUROPEAN POLITICAL COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 02 BUDAPEST 000124

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DEPARTMENT FOR E, EB, EUR DAS BRYZA AND EUR/NCE; PLEASE
PASS TO NSC FOR ADAM STERLING

E.O. 12958: DECL: 02/06/2018

TAGS: [PREL](#) [ENRG](#) [HU](#)

SUBJECT: AVERTING CHECKMATE ON HUNGARIAN-TURKMEN ENERGY

CONTRACT: URGENT REQUEST FOR GUIDANCE

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI; REASONS 1.5 (B) AND (D)

¶1. (U) This is a joint guidance request from Embassies
Ashgabat and Budapest.

¶2. (U) Embassies Ashgabat and Budapest request urgent
guidance to avert the conclusion of a pending energy supply
contract between Turkmenistan and Hungary which could be
concluded within days. The contract, negotiated through an
off-shore corporation whose ownership remains unclear, would
lock Hungary into a 30-year commitment to purchase gas
transmitted through existing Gazprom-controlled pipelines,
thus undermining Hungary's security as well as the broader
viability of the Nabucco project.

¶3. (C) Background: Embassy Ashgabat has learned that the
Government of Turkmenistan is poised to complete a long-term
gas-supply contract with Millander International Ltd. (Note:
Millander is an off-shore corporation whose precise ownership
structure remains unclear. Millander has apparently received
authorization from the GoH to act on its behalf to promote
Turkmen-Hungarian energy cooperation. End note.) According
to our understanding of the contract, Millander will buy
10-15 bcm/year of Turkmen natural gas for a period of 30
years. The gas will be transported through Kazakhstan,
Ukraine and Slovakia via existing GAZPROM-controlled
pipelines, with approximately 10 bcm intended for import to
Hungary. Millander will use some portion of that gas)
which will be transported from Slovakia to Hungary through a
pipeline Millander plans to build) to fuel its proposed
1000 MW power plant in Ercsi (30 kilometers south of
Budapest).

¶4. (C) The contract poses immediate and obvious problems for
Hungary, for Turkmenistan, and for our broader energy
security strategy:

It will lock Hungary into its present dependence on gas
controlled by Gazprom for the long-term, decreasing its
economic ability to invest in diversification of sources and
supply routes and increasing the political risk to its
ability to make sovereign decisions.

It will deny significant Turkmen reserves to alternate means
of transmission to Europe, depriving Nabucco of significant
potential resources.

It will damage transparency by promoting the influence of
corporate middlemen whose interests remain unclear to the
general public.

In the aftermath of GAZPROM maneuvers in Serbia and Bulgaria,
it will further undermine European confidence in and

commitment to Nabucco.

¶5. (C) But we believe it is not too late to engage in an effort to reverse or modify the contract in order to contain the damage. We request urgent guidance authorizing Embassy Budapest to engage with senior GoH officials to make the following points:

We understand that discussions between Turkmenistan and a Hungarian corporation regarding the supply of gas are nearing conclusion.

We welcome outreach to the states of Central Asia to encourage their emergence as independent, direct suppliers to Europe.

However, we understand that the contract would commit Hungary to purchase a significant volume of Turkmen gas for a 30-year period, to be delivered via the existing GAZPROM-controlled network.

It is difficult to see how this arrangement would advance the Government of Hungary's stated objective of energy diversification.

Indeed, it would compound Hungary's existing dependence by locking in the status quo for the long-term, thus preventing Hungary's investment in more diverse sources and supply routes and reducing Turkmenistan's ability to serve as an eventual supplier for Nabucco.

This, in turn, will call into question Hungary's commitment to the project, to which the EU has publicly committed.

We have also long expressed our concerns regarding

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transparency. In that regard, we question whether the use of a corporation about which little information is publicly available, is the best way to ensure the open and reliable system reputable investors require.

Hungary's neighbor, Ukraine, is moving bravely to end the use of such intermediaries. We applaud these steps.

We ask that you consider the terms) and particularly the duration) of the proposed contract closely.

¶6. (C) EMBASSY ASHGABAT NOTE: The original documentation on this deal that was provided to Embassy Ashgabat notes negotiations have been continuing for at least 30 months -- well back into the Niyazov era. Now that Turkmenistan is committed to multiple export routes for its natural gas, it is against Turkmenistan's long-term interests to conclude this deal. Given Millander's non-transparency, and knowing how things work in this region, we would not be shocked if Millander is one of Gazprom's many shell companies -- or worse. The well-plugged-in source of this deal's documentation has promised Charge further background early next week. END NOTE.

FOLEY